

PCM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
John Woestman	President	2009
Mike Schippers	Vice President	2007
Fred Peasley	Vice President (Resigned)	2007
Michele Wilkie	Board Member	2009
Krista Von Bank	Board Member	2008
Suzanne Morecock	Board Member	2008
Tim McCarthy	Board Member	2009
Lori Storm	Board Member (Appointed)	2007
Board of Education (After September 2007 Election)		
John Woestman	President	2009
Michele Wilkie	Vice President	2009
Krista Von Bank	Board Member	2008
Suzanne Morecock	Board Member	2008
Tim McCarthy	Board Member	2009
Lori Storm	Board Member	2010
Lana Wilson	Board Member	2010
School Officials		
Kirk Nelson	Superintendent	2008
Tami Thomas	District Secretary and Business Manager (Resigned)	2008
Lisa Waddell	District Secretary and Business Manager (Appointed)	2008
Tami Thomas	District Treasurer	2008
Peter Pashler	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District, Prairie City, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the PCM Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2009 on our consideration of the PCM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PCM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

PCM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,959,545 in fiscal 2007 to \$8,331,412 in fiscal 2008, while General Fund expenditures decreased from \$8,305,591 in fiscal 2007 to \$8,277,864 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$114,040 in fiscal 2007 to a balance of \$167,588 in fiscal 2008, a 46.96% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in local, state and federal revenues in fiscal 2008. The decrease in expenditures was due primarily to a decrease in instructional expenses during fiscal 2008.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of PCM Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report PCM Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which PCM Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
PCM Community School District Annual Financial Report

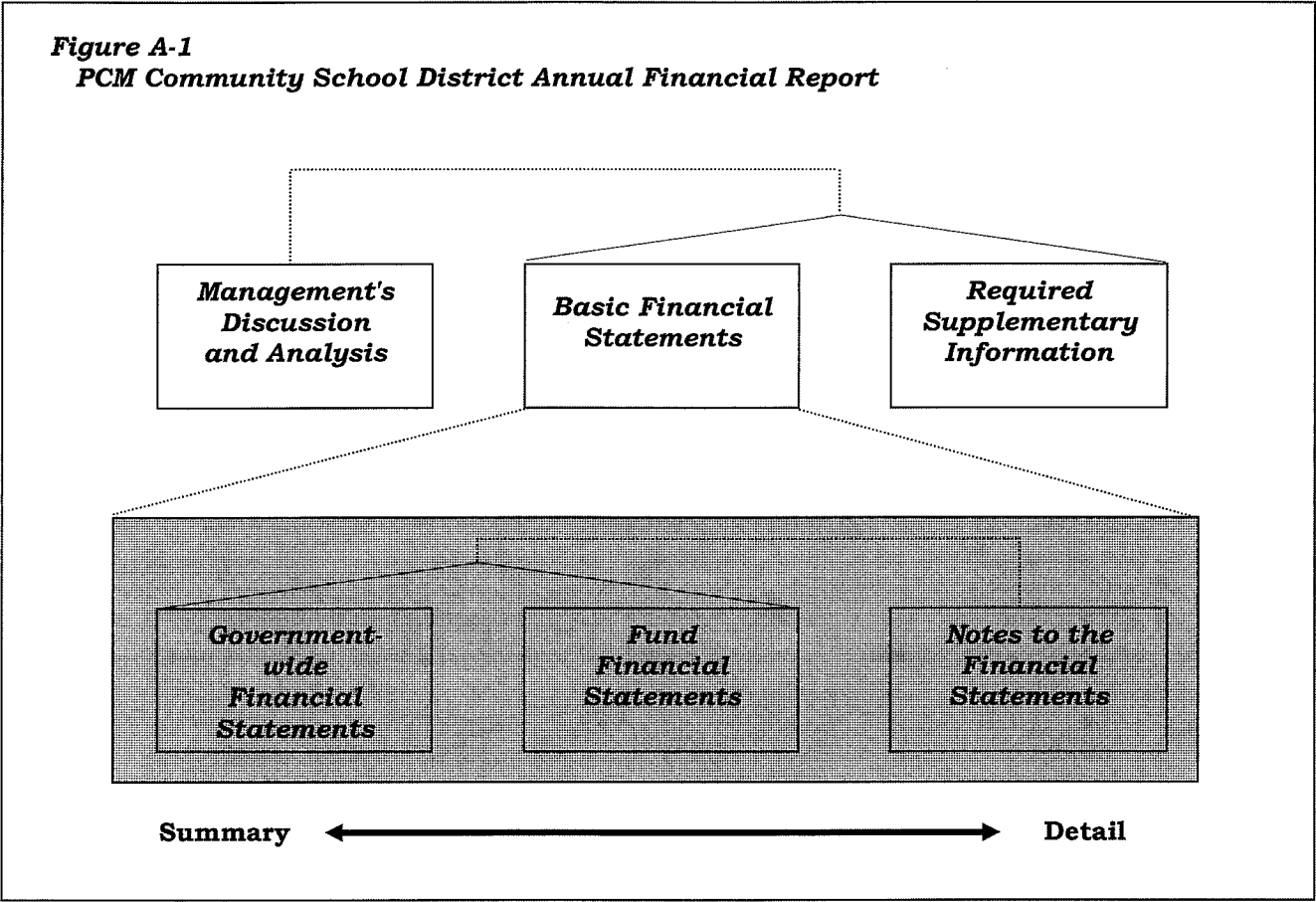


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

- a. Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 5,469,010	4,891,823	9,721	55,977	5,478,731	4,947,800	10.73%
Capital assets	4,495,277	4,724,861	22,990	29,445	4,518,267	4,754,306	-4.96%
Total assets	9,964,287	9,616,684	32,711	85,422	9,996,998	9,702,106	3.04%
Long-term obligations	1,164,399	1,425,357	0	0	1,164,399	1,425,357	-18.31%
Other liabilities	3,252,093	3,365,905	7,236	31,146	3,259,329	3,397,051	-4.05%
Total liabilities	4,416,492	4,791,262	7,236	31,146	4,423,728	4,822,408	-8.27%
Net assets:							
Invested in capital assets, net of related debt	3,600,277	3,624,861	22,990	29,445	3,623,267	3,654,306	-0.85%
Restricted	1,721,577	1,122,640	0	0	1,721,577	1,122,640	53.35%
Unrestricted	225,941	77,921	2,485	24,831	228,426	102,752	122.31%
Total net assets	\$ 5,547,795	4,825,422	25,475	54,276	5,573,270	4,879,698	14.21%

The District's combined net assets increased by 14.21%, or \$693,572 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 53.35% or \$598,937 over the prior year. This increase is primarily due to the increase in the Capital Projects fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased 122.31% or \$125,674. This increase is primarily due to the increase in the General fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 643,574	632,468	369,218	377,309	1,012,792	1,009,777	0.30%
Operating grants and contributions and restricted interest	1,239,839	1,046,806	152,913	143,057	1,392,752	1,189,863	17.05%
Capital grants and contributions and restricted interest	39,001	24,967	0	0	39,001	24,967	56.21%
General revenues:							
Local tax	3,739,802	3,704,228	0	0	3,739,802	3,704,228	0.96%
Unrestricted state grants	4,059,612	3,988,716	0	0	4,059,612	3,988,716	1.78%
Other	49,194	43,777	339	309	49,533	44,086	12.36%
Transfers	0	(3,738)	0	0	0	(3,738)	100.00%
Total revenues and transfers	9,771,022	9,437,224	522,470	520,675	10,293,492	9,957,899	3.37%
Program expenses:							
Governmental activities:							
Instructional	5,901,192	5,989,737	0	0	5,901,192	5,989,737	-1.48%
Support services	2,494,852	2,526,352	0	0	2,494,852	2,526,352	-1.25%
Non-instructional programs	3,181	0	551,271	489,047	554,452	489,047	13.37%
Other expenses	716,183	516,835	0	0	716,183	516,835	38.57%
Total expenses	9,115,408	9,032,924	551,271	489,047	9,666,679	9,521,971	1.52%
Change in net assets before subsequent event	655,614	404,300	(28,801)	31,628	626,813	435,928	43.79%
Subsequent event(Note 13)	66,759	0	0	0	66,759	0	100.00%
Change in net assets	722,373	404,300	(28,801)	31,628	693,572	435,928	-59.10%
Net assets beginning of year	4,825,422	4,421,122	54,276	22,648	4,879,698	4,443,770	9.81%
Net assets end of year	\$ 5,547,795	4,825,422	25,475	54,276	5,573,270	4,879,698	14.21%

In fiscal 2008, local tax and unrestricted state grants account for 79.82% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.94% of the revenue from business type activities.

The District's total revenues were approximately \$10.3 million of which \$9.8 million was for governmental activities and less than \$0.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.37% increase in revenues and a 1.52% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$9,771,022 and expenses were \$9,115,408. In a difficult budget year, the District was able to balance the budget by expending monies from the fund balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 5,901,192	5,989,737	-1.48%	4,348,505	4,620,962	-5.90%
Support services	2,494,852	2,526,352	-1.25%	2,484,854	2,521,390	-1.45%
Non-instructional	3,181	0	100.00%	3,181	0	100.00%
Other expenses	716,183	516,835	38.57%	356,454	186,331	91.30%
Totals	\$ 9,115,408	9,032,924	0.91%	7,192,994	7,328,683	-1.85%

- The cost financed by users of the District's programs was \$643,574.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,278,840.
- The net cost of governmental activities was financed with \$3,739,802 in local tax, \$4,059,612 in unrestricted state grants, and \$49,194 in other income.

Business-Type Activities

Revenues of the District's business-type activities were \$522,470 and expenses were \$551,271. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the PCM Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,959,045, compared to last year's ending fund balances of \$1,335,697.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the product of many factors. Increase in the local, state and federal revenues during the year resulted in an increase in revenues. The increase in revenues along with the decrease in expenditures ensured the increase in the financial position of the District.

- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$194,737 to \$240,737, due to revenues surpassing expenditures during fiscal 2008.
- The Capital Projects fund balance increased from \$550,115 to \$1,097,912 due to the decreased expenditures during fiscal 2008 as compared to fiscal 2007.
- The Debt Service fund balance increased from \$119,732 to \$122,164, due normal debt activity during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$54,276 at June 30, 2007 to \$25,475 at June 30, 2008, representing a decrease of approximately 53.06%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$213,897 more than budgeted revenues, a variance of 2.12%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Unfortunately, during fiscal 2008, the District exceeded budgeted expenditures in the non-instructional function.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$4.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.96% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$258,112.

The original cost of the District's capital assets was \$9,026,028. Governmental funds account for \$8,779,169 with \$246,859 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$252,761 at June 30, 2007, compared to \$205,361 reported at June 30, 2008. This decrease resulted from normal depreciation taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 156,462	156,462	0	0	156,462	156,462	0.00%
Buildings	4,156,444	4,345,083	0	0	4,156,444	4,345,083	-4.34%
Machinery and equipment	182,371	223,316	22,990	29,445	205,361	252,761	-18.75%
Total	\$ 4,495,277	4,724,861	22,990	29,445	4,518,267	4,754,306	-4.96%

Long-Term Debt

At June 30, 2008, the District had long-term debt outstanding of \$1,164,399 in general obligation bonds, revenue bonds and early retirement. This represents a decrease of approximately 18.31% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$795,000 at June 30, 2008, for the Prairie City Elementary.

The District had revenue bonds payable of \$100,000 at June 30, 2008, for the nature and education center that was completed during fiscal 2007.

The District also had total outstanding early retirement payable of \$269,399 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 795,000	975,000	-18.46%
Revenue bonds	100,000	125,000	-20.00%
Early retirement	269,399	325,357	-17.20%
Total	\$ 1,164,399	1,425,357	-18.31%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Development along Highway 163 has the potential for new economic opportunities, which could positively affect the District in the future.
- Budget cuts of \$400,000 for fiscal 2008 as well as renewal of the Instructional Support Levy will help to maintain District health.
- The District raised prices for meals served by food service for fiscal 2008. This should help to enable the School Nutrition Fund to be self sustaining.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Waddell, Business Manager, PCM Community School District, P.O. Box 490, Prairie City, Iowa, 50228.

BASIC FINANCIAL STATEMENTS

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,564,991	8,178	1,573,169
Receivables:			
Property tax:			
Delinquent	37,046	0	37,046
Succeeding year	3,178,440	0	3,178,440
Income surtax	195,150	0	195,150
Interfund	26,000	(26,000)	0
Accounts	155,528	1,535	157,063
Insurance settlement(Note 13)	66,759	0	66,759
Due from other governments	245,096	47	245,143
Inventories	0	25,961	25,961
Capital assets, net of accumulated depreciation(Note 6)	4,495,277	22,990	4,518,267
TOTAL ASSETS	9,964,287	32,711	9,996,998
LIABILITIES			
Accounts payable	69,462	36	69,498
Salaries and benefits payable	154	0	154
Interest payable	4,037	0	4,037
Deferred revenue:			
Succeeding year property tax	3,178,440	0	3,178,440
Other	0	7,200	7,200
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	185,000	0	185,000
Revenue bonds	25,000	0	25,000
Early retirement	55,629	0	55,629
Portion due after one year:			
General obligation bonds	610,000	0	610,000
Revenue bonds	75,000	0	75,000
Early retirement	213,770	0	213,770
TOTAL LIABILITIES	4,416,492	7,236	4,423,728
NET ASSETS			
Invested in capital assets, net of related debt	3,600,277	22,990	3,623,267
Restricted for:			
Talented and gifted	28,766	0	28,766
Teacher mentoring	871	0	871
Additional teacher contract day	499	0	499
Professional development	20,169	0	20,169
Market factor	4,164	0	4,164
Administration mentoring	1,866	0	1,866
Early intervention	85,443	0	85,443
Market factor incentives	915	0	915
Physical plant and equipment levy	240,737	0	240,737
Capital projects	1,097,912	0	1,097,912
Debt service	122,164	0	122,164
Other special revenue purposes	118,071	0	118,071
Unrestricted	225,941	2,485	228,426
TOTAL NET ASSETS	\$ 5,547,795	25,475	5,573,270

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Governmental Activities	Business-Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 3,789,455	349,947	860,447	0	(2,579,061)	0	(2,579,061)
Special instruction	1,234,540	57,105	48,666	0	(1,128,769)	0	(1,128,769)
Other instruction	877,197	236,522	0	0	(640,675)	0	(640,675)
	5,901,192	643,574	909,113	0	(4,348,505)	0	(4,348,505)
Support services:							
Student services	160,090	0	0	0	(160,090)	0	(160,090)
Instructional staff services	261,269	0	0	0	(261,269)	0	(261,269)
Administration services	857,033	0	0	0	(857,033)	0	(857,033)
Operation and maintenance of plant services	707,114	0	0	0	(707,114)	0	(707,114)
Transportation services	509,346	0	9,998	0	(499,348)	0	(499,348)
	2,494,852	0	9,998	0	(2,484,854)	0	(2,484,854)
Non-instruction:							
Food service operations	3,181	0	0	0	(3,181)	0	(3,181)
Other expenditures:							
Facilities acquisitions	158,730	0	0	39,001	(119,729)	0	(119,729)
Long-term debt interest	48,086	0	0	0	(48,086)	0	(48,086)
AEA flowthrough	320,728	0	320,728	0	0	0	0
Depreciation(unallocated) *	188,639	0	0	0	(188,639)	0	(188,639)
	716,183	0	320,728	39,001	(356,454)	0	(356,454)
Total governmental activities	9,115,408	643,574	1,239,839	39,001	(7,192,994)	0	(7,192,994)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	551,271	369,218	152,913	0	0	(29,140)	(29,140)
Total business-type activities	551,271	369,218	152,913	0	0	(29,140)	(29,140)
Total	\$ 9,666,679	1,012,792	1,392,752	39,001	(7,192,994)	(29,140)	(7,222,134)
General Revenues:							
Local tax for:							
General purposes				\$ 2,556,929	0	2,556,929	
Debt services				225,162	0	225,162	
Capital outlay				190,807	0	190,807	
Income surtax				204,450	0	204,450	
Local option sales and service tax				562,454	0	562,454	
Unrestricted state grants				4,059,612	0	4,059,612	
Unrestricted investment earnings				31,499	339	31,838	
Other				17,695	0	17,695	
Total general revenues				7,848,608	339	7,848,947	
Changes in net assets before subsequent event				655,614	(28,801)	626,813	
Subsequent event (Note 13):							
Insurance settlement				66,759	0	66,759	
Changes in net assets				722,373	(28,801)	693,572	
Net assets beginning of year				4,825,422	54,276	4,879,698	
Net assets end of year				\$ 5,547,795	25,475	5,573,270	

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 0	238,018	946,819	448,625	1,633,462
Receivables:					
Property tax:					
Delinquent	31,014	2,118	0	3,914	37,046
Succeeding year	2,547,666	209,584	0	421,190	3,178,440
Income surtax	195,150	0	0	0	195,150
Interfund	26,000	0	0	0	26,000
Accounts	153,727	601	0	1,200	155,528
Due from other governments	94,003	0	151,093	0	245,096
TOTAL ASSETS	\$ 3,047,560	450,321	1,097,912	874,929	5,470,722
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued					
bank balance	\$ 68,471	0	0	0	68,471
Accounts payable	68,531	0	0	931	69,462
Salaries and benefits payable	154		0	0	154
Deferred revenue:					
Succeeding year property tax	2,547,666	209,584	0	421,190	3,178,440
Income surtax	195,150	0	0	0	195,150
Total liabilities	2,879,972	209,584	0	422,121	3,511,677
Fund balances:					
Reserved for:					
Talented and gifted	28,766	0	0	0	28,766
Teacher mentoring	871	0	0	0	871
Additional teacher contract day	499	0	0	0	499
Professional development	20,169	0	0	0	20,169
Market factor	4,164	0	0	0	4,164
Administration mentoring	1,866	0	0	0	1,866
Early intervention	85,443	0	0	0	85,443
Market factor incentives	915	0	0	0	915
Debt service	0	0	0	122,164	122,164
Unreserved:					
Undesignated	24,895	240,737	1,097,912	330,644	1,694,188
Total fund balances	167,588	240,737	1,097,912	452,808	1,959,045
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,047,560	450,321	1,097,912	874,929	5,470,722

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 16)	\$ 1,959,045
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,495,277
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(4,037)
Insurance settlement receivable is not yet available to recover losses of the current and prior fiscal periods.	66,759
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	195,150
Long-term liabilities, including bonds payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,164,399)
Net assets of governmental activities (page 14)	<u>\$ 5,547,795</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,600,528	190,807	562,454	386,054	3,739,843
Tuition	365,079	0	0	0	365,079
Other	124,799	5,478	39,376	255,450	425,103
State sources	4,982,050	11	0	21	4,982,082
Federal sources	258,906	0	0	0	258,906
Total revenues	8,331,362	196,296	601,830	641,525	9,771,013
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,716,046	0	0	99,156	3,815,202
Special instruction	1,234,540	0	0	0	1,234,540
Other instruction	634,934	0	0	247,524	882,458
	5,585,520	0	0	346,680	5,932,200
Support services:					
Student services	164,216	0	0	890	165,106
Instructional staff services	267,269	0	0	0	267,269
Administration services	860,481	0	0	2,552	863,033
Operation and maintenance of plant services	643,472	0	0	60,072	703,544
Transportation services	436,178	15,680	0	27,717	479,575
	2,371,616	15,680	0	91,231	2,478,527
Non-instructional:					
Food service operations	0	0	0	3,511	3,511
Other expenditures:					
Facilities acquisitions	0	134,616	24,114	0	158,730
Long-term debt:					
Principal	0	0	0	205,000	205,000
Interest and fiscal charges	0	0	0	49,019	49,019
AEA flowthrough	320,728	0	0	0	320,728
	320,728	134,616	24,114	254,019	733,477
Total expenditures	8,277,864	150,296	24,114	695,441	9,147,715
Excess(deficiency) of revenues over(under) expenditures	53,498	46,000	577,716	(53,916)	623,298
Other financing sources(uses):					
Transfers in	0	0	0	29,919	29,919
Transfers out	0	0	(29,919)	0	(29,919)
Sales of equipment and materials	50	0	0	0	50
Total other financing sources(uses)	50	0	(29,919)	29,919	50
Net change in fund balances	53,548	46,000	547,797	(23,997)	623,348
Fund balance beginning of year	114,040	194,737	550,115	476,805	1,335,697
Fund balance end of year	\$ 167,588	240,737	1,097,912	452,808	1,959,045

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 18) \$ 623,348

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year, as follows:

Capital expenditures	\$ 22,073	
Depreciation expense	(251,657)	(229,584)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

205,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	55,958	
ISEBA assessment	66,759	122,717

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

(41)

Changes in net assets of governmental activities (page 15) \$ 722,373

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 8,178
Accounts receivable	1,535
Due from other governments	47
Inventories	25,961
Capital assets, net of accumulated depreciation(Note 6)	22,990
TOTAL ASSETS	<u>58,711</u>
LIABILITIES	
Interfund payable	26,000
Accounts payable	36
Unearned revenues	7,200
TOTAL LIABILITIES	<u>33,236</u>
NET ASSETS	
Invested in capital assets	22,990
Unrestricted	2,485
TOTAL NET ASSETS	<u>\$ 25,475</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 369,218</u>
OPERATING EXPENSES:	
Food service operations:	
Salaries	153,803
Benefits	70,599
Services	90,981
Supplies	229,433
Depreciation	6,455
TOTAL OPERATING EXPENSES	<u>551,271</u>
OPERATING LOSS	<u>(182,053)</u>
NON-OPERATING REVENUES:	
Interest	339
State sources	5,785
Federal sources	147,128
TOTAL NON-OPERATING REVENUES	<u>153,252</u>
Change in net assets	(28,801)
Net assets at beginning of year	<u>54,276</u>
Net assets end of year	<u><u>\$ 25,475</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 373,830
Cash payments to employees for services	(224,402)
Cash payments to suppliers for goods or services	(298,783)
Net cash used in operating activities	<u>(149,355)</u>
Cash flows from non-capital financing activities:	
State grants received	5,785
Federal grants received	118,503
Net cash provided by non-capital financing activities	<u>124,288</u>
Cash flows from investing activities:	
Interest on investments	<u>339</u>
Net decrease in cash and cash equivalents	(24,728)
Cash and cash equivalents at beginning of year	<u>32,906</u>
Cash and cash equivalents at end of year	<u>\$ 8,178</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (182,053)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	28,578
Depreciation	6,455
Increase in inventories	(6,767)
Decrease in accounts receivable	2,342
Decrease in accounts payable	(180)
Increase in unearned revenue	2,270
Net cash used in operating activities	<u>\$ (149,355)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 8,178</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$28,578.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 57,291</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	52,600
Unreserved	<u>4,691</u>
TOTAL NET ASSETS	<u><u>\$ 57,291</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest income	<u>\$ 2,082</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>775</u>
Change in net assets	1,307
Net assets beginning of year	<u>55,984</u>
Net assets end of year	<u>\$ 57,291</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The PCM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Prairie City, and Monroe, Iowa, and the predominate agricultural territory in Jasper, Marion and Polk Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, PCM Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The PCM Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper, Marion and Polk County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund.

The District's proprietary funds is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax

accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the non-instructional functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 10,141</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2008, the District had investments in Certificates of Deposit maturing over one year as follows:

	Fair Value
Certificates of Deposit	\$ 52,600

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables for the year ended June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 26,000

(4) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 29,919

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must

make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was advance ISCAP activity in the General Fund for the year ended June 30, 2008 as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A \$	0	140,000	140,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.448%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 156,462	0	0	156,462
Total capital assets not being depreciated	156,462	0	0	156,462
Capital assets being depreciated:				
Buildings	7,305,264	0	0	7,305,264
Machinery and equipment	1,295,370	22,073	0	1,317,443
Total capital assets being depreciated	8,600,634	22,073	0	8,622,707
Less accumulated depreciation for:				
Buildings	2,960,181	188,639	0	3,148,820
Machinery and equipment	1,072,054	63,018	0	1,135,072
Total accumulated depreciation	4,032,235	251,657	0	4,283,892
Total capital assets being depreciated, net	4,568,399	(229,584)	0	4,338,815
Governmental activities capital assets, net	\$ 4,724,861	(229,584)	0	4,495,277

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 246,859	0	0	246,859
Less accumulated depreciation	217,414	6,455	0	223,869
Business-type activities capital assets, net	<u>\$ 29,445</u>	<u>(6,455)</u>	<u>0</u>	<u>22,990</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 13,997
Support services:		
Operation and maintenance of plant services		3,570
Transportation		45,451
		<u>63,018</u>
Unallocated depreciation		<u>188,639</u>
Total governmental activities depreciation expense		<u>\$ 251,657</u>
Business-type activities:		
Food services		<u>\$ 6,455</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 975,000	0	180,000	795,000	185,000
Revenue bonds	125,000	0	25,000	100,000	25,000
Early retirement	325,357	0	55,958	269,399	55,629
Total	<u>\$ 1,425,357</u>	<u>0</u>	<u>260,958</u>	<u>1,164,399</u>	<u>265,629</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Employees must be between the ages of fifty-five and sixty-four and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 75% of the employees yearly salary. During the year ended June 30, 2008, the District paid early retirement benefits of \$55,958.

General Obligation

Details of the District's June 30, 2008 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated August 1, 1998		
		Principal	Interest	Total
2009	4.45 %	\$ 185,000	35,690	220,690
2010	4.45	195,000	27,458	222,458
2011	4.50	205,000	18,780	223,780
2012	4.55	210,000	9,555	219,555
Total		<u>\$ 795,000</u>	<u>91,483</u>	<u>886,483</u>

Revenue Bonds Payable

Details of the District's June 30, 2008 Revenue Bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated April 13, 2005		
		Principal	Interest	Total
2009	4.25 %	\$ 25,000	3,852	28,852
2010	4.25	25,000	2,789	27,789
2011	4.25	25,000	1,727	26,727
2012	4.25	25,000	664	25,664
Total		<u>\$ 100,000</u>	<u>9,031</u>	<u>109,031</u>

The District has pledged future local option sales and services tax revenues to repay the bonds. During the April 2005, the District entered into an agreement with Metro Waste Authority providing for \$175,000 for building the nature and education center that will be located on the premises of the District. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2012. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 5 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$109,031. For the current year principal of \$25,000 and interest of \$4,919 was paid on the bonds and the total local option sales and services tax revenues were \$562,454.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30,

2008, 2007 and 2006 were \$323,421, \$310,177, and \$303,533 respectively, equal to the required contributions for each year.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$320,728 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted expenditures at the functional area. During the year ended June 30, 2008, expenditures in the non-instructional functional areas exceeded the amounts budgeted.

(12) Contingencies

As of June 30, 2008, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

(13) Subsequent Events

The District received an insurance settlement for \$66,759.21 in February 2009 for a prior fraud investigation. This insurance settlement is shown as an asset on Exhibit A.

REQUIRED SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance
	Actual	Actual	Actual	Original	Final	
Revenues:						
Local sources	\$ 4,530,025	369,557	4,899,582	4,817,973	4,817,973	81,609
State sources	4,982,082	5,785	4,987,867	4,942,613	4,942,613	45,254
Federal sources	258,906	147,128	406,034	319,000	319,000	87,034
Total revenues	9,771,013	522,470	10,293,483	10,079,586	10,079,586	213,897
Expenditures:						
Instruction	5,932,200	0	5,932,200	6,230,000	6,230,000	297,800
Support services	2,478,527	0	2,478,527	2,716,000	2,716,000	237,473
Non-instructional programs	3,511	551,271	554,782	540,000	540,000	(14,782)
Other expenditures	733,477	0	733,477	1,513,464	1,513,464	779,987
Total expenditures	9,147,715	551,271	9,698,986	10,999,464	10,999,464	1,300,478
Excess(deficiency) of revenues over(under) expenditures	623,298	(28,801)	594,497	(919,878)	(919,878)	1,514,375
Other financing sources, net	50	0	50	0	0	50
Excess(deficiency) of revenues and other financing sources over(under) expenditures	623,348	(28,801)	594,547	(919,878)	(919,878)	1,514,425
Balance beginning of year	1,335,697	54,276	1,389,973	1,159,034	1,159,034	230,939
Balance end of year	\$ 1,959,045	25,475	1,984,520	239,156	239,156	1,745,364

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the non-instructional function exceeded budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue			Total	
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 211,420	118,071	329,491	119,134	448,625
Receivables:					
Property tax:					
Delinquent	1,526	0	1,526	2,388	3,914
Succeeding year	200,000	0	200,000	221,190	421,190
Accounts	558	0	558	642	1,200
TOTAL ASSETS	\$ 413,504	118,071	531,575	343,354	874,929
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 931	0	931	0	931
Deferred revenue:					
Succeeding year property tax	200,000	0	200,000	221,190	421,190
Total liabilities	200,931	0	200,931	221,190	422,121
Fund balances:					
Reserved:					
Debt service	0	0	0	122,164	122,164
Unreserved:					
Undesignated	212,573	118,071	330,644	0	330,644
Total fund balances	212,573	118,071	330,644	122,164	452,808
TOTAL LIABILITIES AND FUND BALANCES	\$ 413,504	118,071	531,575	343,354	874,929

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue			Total	
	Manage-	Student	Total	Debt	Total
	ment	Activity	Special	Service	Other
	Levy		Revenue		Nonmajor
			Funds		Governmental
					Funds
REVENUES:					
Local sources:					
Local tax	\$ 160,892	0	160,892	225,162	386,054
Other	17,154	236,938	254,092	1,358	255,450
State sources	9	0	9	12	21
TOTAL REVENUES	178,055	236,938	414,993	226,532	641,525
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	99,156	0	99,156	0	99,156
Other instruction	0	247,524	247,524	0	247,524
Support services:					
Student services	890	0	890	0	890
Administration services	2,552	0	2,552	0	2,552
Operation and maintenance					
of plant services	60,072	0	60,072	0	60,072
Transportation services	27,717	0	27,717	0	27,717
Non-instructional:					
Food service operations	3,511	0	3,511	0	3,511
Other expenditures:					
Long-term debt:					
Principal	0	0	0	205,000	205,000
Interest	0	0	0	49,019	49,019
TOTAL EXPENDITURES	193,898	247,524	441,422	254,019	695,441
DEFICIENCY OF REVENUES					
UNDER EXPENDITURES	(15,843)	(10,586)	(26,429)	(27,487)	(53,916)
TOTAL OTHER FINANCING SOURCES					
Transfer in	0	0	0	29,919	29,919
EXCESS (DEFICIENCY) OF REVENUES					
AND OTHER FINANCING SOURCES					
OVER (UNDER) EXPENDITURES	(15,843)	(10,586)	(26,429)	2,432	(23,997)
FUND BALANCE BEGINNING OF YEAR	228,416	128,657	357,073	119,732	476,805
FUND BALANCE END OF YEAR	\$ 212,573	118,071	330,644	122,164	452,808

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Art club	\$ 927	0	575	352
Athletics	1,188	121,619	127,374	(4,567)
Band	4,352	7,597	8,020	3,929
Cheerleaders	2,158	2,904	2,946	2,116
Class of 2007	350	140	0	490
Class of 2008	1,766	8,321	9,877	210
Class of 2009	2,615	3,491	2,131	3,975
Class of 2010	925	140	481	584
Class of 2011	2,072	40	0	2,112
Class of 2012	2,554	0	27	2,527
Class of 2013	2,456	0	0	2,456
Drama	164	1,229	2,111	(718)
Mustang club	22,951	7,569	3,569	26,951
FFA	8,396	31,157	34,664	4,889
Foods/clothing club	460	213	48	625
Football club	0	13,017	1,944	11,073
Interest	628	360	0	988
Jazz creation	12,069	1,271	13,489	(149)
Journalism	281	133	191	223
Korver Memorial	0	0	65	(65)
National honor society	576	295	690	181
Pop fund	5,788	874	1,480	5,182
Science club	417	0	0	417
Spanish club	948	132	189	891
Speech club	1,419	0	1,903	(484)
Spirit club	7,362	904	4,010	4,256
Student government	2,827	2,900	1,819	3,908
Thespians	356	305	560	101
Vocal	4,383	3,146	4,076	3,453
Photography club	67	0	67	0
Student assignment books	187	0	0	187
Student council	17,700	7,070	7,255	17,515
Accounting club	0	0	28	(28)
Playground	3,586	395	419	3,562
Reading club	5,249	1,119	946	5,422
Spelling bee	424	0	0	424
Just say no club	1,724	1,131	2,297	558
Preschool	303	0	65	238
Yearbook	9,029	7,705	8,519	8,215
Washington DC trip	0	11,435	5,689	5,746
Teens against substances	0	326	0	326
Total	\$ 128,657	236,938	247,524	118,071

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 3,739,843	3,676,037	3,478,621	3,393,896	3,195,617
Tuition	365,079	336,600	317,811	293,058	264,258
Other	425,103	389,840	470,271	401,957	525,001
Intermediate sources	0	10,634	0	0	0
State sources	4,982,082	4,760,157	4,455,610	4,331,308	4,025,365
Federal sources	258,906	239,503	195,604	296,385	179,153
Total	<u>\$ 9,771,013</u>	<u>9,412,771</u>	<u>8,917,917</u>	<u>8,716,604</u>	<u>8,189,394</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 3,815,202	3,782,796	3,711,392	3,588,938	3,336,553
Special instruction	1,234,540	1,213,005	1,377,275	1,309,659	1,198,740
Other instruction	882,458	961,120	752,158	782,833	916,466
Support services:					
Student services	165,106	238,467	214,986	215,362	197,528
Instructional staff services	267,269	308,831	331,870	245,061	243,778
Administration services	863,033	803,531	768,393	647,847	625,238
Operation and maintenance of plant services	703,544	683,172	692,804	646,719	673,256
Transportation services	479,575	496,878	423,146	445,373	412,863
Central services	0	0	0	0	5,798
Non-instructional:					
Food service operations	3,511	3,246	3,320	2,209	1,701
Other expenditures:					
Facilities acquisitions	158,730	929,113	422,765	168,576	33,113
Long Term Debt:					
Principal	205,000	259,600	282,400	243,000	275,000
Interest	49,019	57,099	73,623	78,128	90,983
AEA flow-through	320,728	305,537	281,251	275,226	268,445
Total	<u>\$ 9,147,715</u>	<u>10,042,395</u>	<u>9,335,383</u>	<u>8,648,931</u>	<u>8,279,462</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of PCM Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 17, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PCM Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of PCM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PCM Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PCM Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of PCM Community School District's financial statements that is more than inconsequential will not be prevented or detected by PCM Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by PCM Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-08 and I-D-08 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

PCM Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit PCM Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of PCM Community School District and other parties to whom PCM Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of PCM Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2009

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - PCM has evaluated all duties and have made changes to allow for a better segregation of duties.

Conclusion - Response accepted.

I-B-08 Student Activity Fund - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

More specifically, transactions in the playground account are more appropriately accounted for in the PPEL Fund or the General Fund. This account does not appear to be cocurricular or extra curricular in nature so it does not meet the criteria of the Student Activity Fund. This account should be transferred to the PPEL Fund or the General Fund.

The District receives money for use of facilities when hosting district and regional events. Currently the District's practice is to receipt rents for hosting district and regional events into the Activity Fund. Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. In the future, the District should receipt rent collected for facility usage into the General Fund.

Currently, donations from Target and Box Tops are recorded in the Elementary account in the Student Activity Fund. Target and Box Top donations are considered an

undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. The designation should be noted annually in the District's board minutes.

Currently, there is an interest account within the Activity Fund. The interest earned during the year should be allocated out to the various activity accounts, at least on an annual basis.

If the proceeds in the pop fund accounts are controlled by the faculty and administration for break room beverages, these accounts should not be contained within the Activity Fund. The accounts used by the teachers may be more appropriate in the General Fund.

The District should review the properness of receipts and expenditures that are recorded in the Student Activity Fund. The District should also review procedures that are in place in regards to the Activity Fund and follow the suggested recommendations to gain compliance and better internal controls.

Response - PCM has reviewed the procedures in the Activity Fund and has implemented several changes to ensure proper procedures are being followed.

Conclusion - Response accepted.

- I-C-08 Gate Admissions - It was noted that the District utilizes pre-numbered tickets for event admissions and a reconciliation is performed after the event. However, the reconciliation is only performed by one person after the event. Through discussion with personnel, it was discovered that tickets are torn off the roll after the event so that the number of tickets sold will match the money received. Currently, the Districts' practice of tearing off tickets to equal the cash deteriorates the reconciliation process.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.

- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - PCM has implemented several procedure changes for cash handling at activity gate admissions. The District has a cash handling procedure handbook that has been distributed and reviewed with all employees.

Conclusion - Response accepted.

- I-D-08 Sponsor Procedures - We noted that sponsors of student organizations were collecting from individuals, fundraising events and other revenue fees. The sponsor or designated individual collections, which subsequently are turned into the office for receipting, depositing and posting, do not appear to always include documentation for later reconciliation uses. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit. It was noted that the sponsors for high school activities were not always receiving receipts for funds turned into the office. The sponsors were also not receiving monthly statements of the transactions within their individual accounts.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts. When funds are turned in for depositing, the sponsors should receive a prenumbered receipt from the office for supporting documentation. The sponsors should also receive a monthly and yearly printout of their individual accounts for review of all of the transactions. The sponsors should be monitoring their individual accounts for missing or inaccurate data that may be recorded in their accounts.

Response - PCM has implemented several procedure changes for cash handling and documentation for receipts that follows the proper procedures.

Conclusion - Response accepted.

- I-E-08 Timely Deposits - We noted during our audit that deposits for the Student Activity fund were prepared but may not be taken to the bank for deposit until several days later, we also noted deposits which were not ever made into the bank.

Recommendation - All receipts should be deposited when received. The district should review their policies and procedures and make necessary changes to ensure that the deposits are made timely.

Response - PCM has implemented several procedure changes for deposits. Deposits are made timely and segregation of duties allows the District to be able to verify all deposits are made and recorded.

Conclusion - Response accepted.

- I-F-08 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchase process, however many of the purchase orders are actually completed after the product has been ordered and at times may be completed after receipt of the products.

Recommendation - The advantage of using a purchase order system is that the approvals of the items being purchased are noted prior to the ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring the actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although Districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before the ordering of the supplies takes place.

Response - PCM has implemented a Business Procedure Handbook that outlines procedures for purchases. The procedure handbook has been distributed and reviewed with all employees.

Conclusion - Response accepted.

- I-G-08 Board Policies - We noted that the District hasn't implemented a cell phone policy. The policy should address the issues and requirements for employees who utilize district owned cell phones or who receive a dollar allowance for personal cell phones.

Recommendation - The District should review their procedures in place and update or implement the necessary policies.

Response - PCM will review and implement a cell phone policy.

Conclusion - Response accepted.

- I-H-08 Transfers - We noted during our audit that the District has interfund payables/receivables which were on the balance sheets in the prior year and still on the current year balance sheets.

Recommendation - The District should repay the interfund loans. Money borrowed on a short term basis from a fund should be repaid before the year end.

Response - The PCM Board of Education has approved a repayment schedule of the interfund loan.

Conclusion - Response accepted.

- I-I-08 Payroll Tax Reporting - We noted that during fiscal year 2008, that the payroll taxes withheld for one payroll were deposited into the bank late.

Recommendation - The District should implement procedures to ensure that all required payroll reports are filed on time and to ensure that all required payroll tax payments are paid when due.

Response - PCM will follow proper procedures to ensure all deadlines are met.

Conclusion - Response accepted.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

- II-A-08 Certified Budget - District expenditures for the year ended June 30, 2008, exceeded the amount budgeted in the non-instructional function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - PCM will closely monitor the Certified Budget and amend if necessary.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted during our audit that there was an invoice paid for gift cards to Wal-Mart. The invoice fails to document the public purpose served.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria.

Response - PCM has implemented a Business Procedure Handbook that specifically states purchases for gift cards are not allowed. This was distributed and reviewed by all employees.

Conclusion - Response accepted.

- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-08 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Matt Teeter, Teacher Owner of M&K Mowing	Grounds upkeep	\$16,500
Pete Peterson, Coach Owner of Monroe Foods	Supplies	\$2,654

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the employees do not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted that the number of basic resident students reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2007 was understated by 2 students and Line 3 was understated by 5 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition - At June 30, 2008, the District's Activity Fund included six negative accounts amounting to \$6,011.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - PCM will monitor all activity accounts to ensure they are not negative.

Conclusion - Response accepted.

II-K-08 Official Contracts - We noted during the audit that the Board President was not signing the athletic official contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into to comply with Chapter 291.1 of the Code of Iowa.

Response - PCM will review and implement changes.

Conclusion - Response accepted.